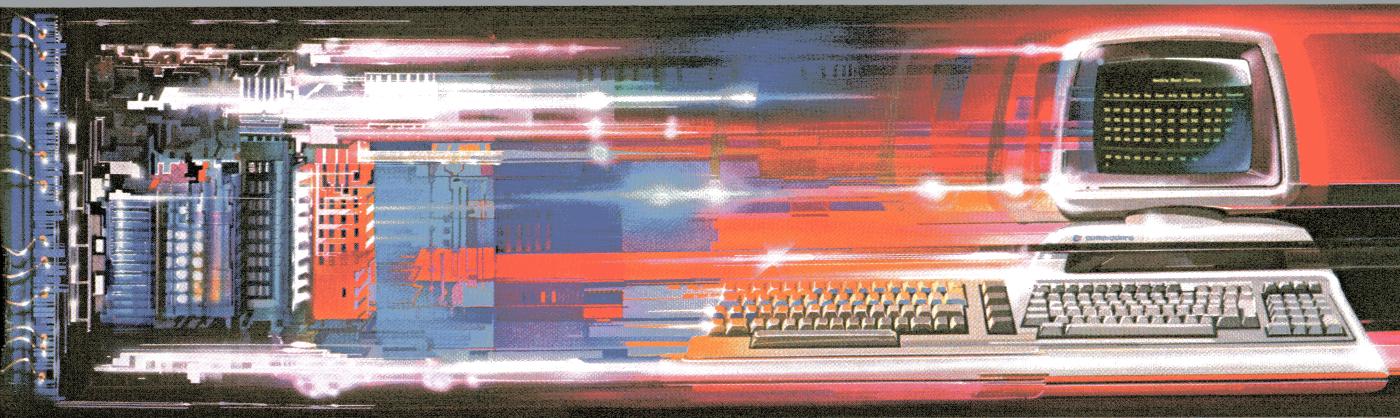


commodore international limited
annual report 1983



...our first quarter century 

Financial Highlights

Financial Highlights

(000s omitted, except per share amounts)

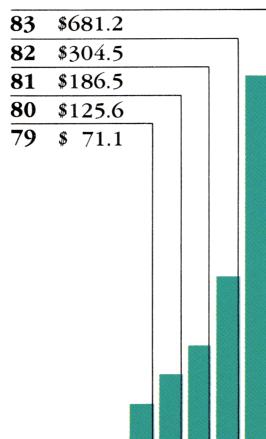
Year Ended 30 June	1983	1982	1981	% Change 1983 vs 1982
Net Sales	\$681,200	\$304,500	\$186,500	+124%
Gross Profit Margin	47.1%	47.8%	44.4%	
Pre-tax Margin	16.6%	16.7%	16.5%	
Net Income ⁽¹⁾	\$ 88,000	\$ 40,600	\$ 24,900	+117%
Shareholders' Equity	\$190,700	\$105,900	\$ 61,600	+80%
Earnings Per Share ⁽¹⁾⁽²⁾	\$ 2.86	\$ 1.32	\$.81	+117%
Average Shares Outstanding ⁽²⁾	30,809	30,800	30,920	
Quarterly Earnings Per Share⁽¹⁾⁽²⁾				
1st Quarter	\$.44	\$.24	\$.15	
2nd Quarter	.74	.30	.19	
3rd Quarter	.81	.35	.22	
4th Quarter	.87	.43	.25	
Total	\$ 2.86	\$ 1.32	\$.81	

⁽¹⁾Excludes extraordinary item.

⁽²⁾Share data adjusted for all stock splits.

Net Sales

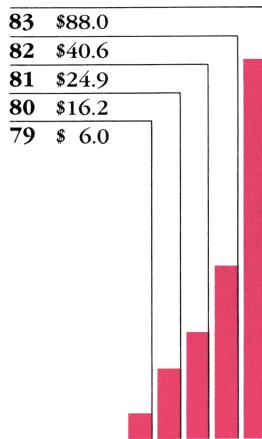
(millions)



Net Income

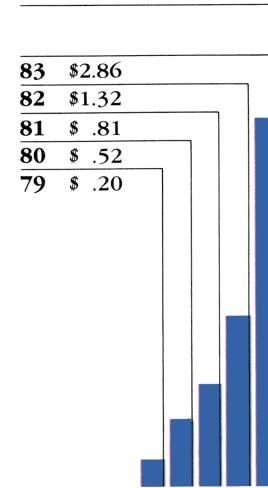
before extraordinary item

(millions)



Earnings Per Share

before extraordinary item



To Our Shareholders:

In this our 25th anniversary year, we are pleased to announce that your Company again achieved record sales, net income and earnings per share in a year of rapid growth and challenge for the industry.

We believe our success is derived from a commitment to fundamentals. First, we are focused. Commodore is the only vertically integrated company whose primary business is microcomputers. Second, we believe in high volume production efficiency... "we serve the masses, as well as the classes." And finally, we are committed to serve the customer better than our competitors. We pass our cost savings on—the sooner the better. We believe the results speak for themselves.

Sales Gain 124%; Net Income Up 117%; Earnings Per Share Rise 117%

The fiscal year ended June 30, 1983 was our sixth consecutive record year.

Sales for the year reached \$681.2 million, an increase of 124% over fiscal 1982 sales of \$304.5 million. Net income before extraordinary item rose 117% to \$88.0 million compared to last year's record income before extraordinary item of \$40.6 million. This is equivalent to \$2.86 per share versus \$1.32 per share in fiscal 1982, a gain of 117%. All results have been restated to reflect the 2 for 1 stock split which occurred May 26, 1983.

Quite importantly, Commodore was again able to achieve a very impressive return on average shareholders' equity of 61.8%, the highest in our history and the fourth consecutive year that this important measurement of operating strength has been in excess of 50%.

Computer Systems Sales

This year, Commodore became the world's leading microcomputer company, with a larger installed base of microcomputers than any other manufacturer. We're proud to be in the leadership position.

Worldwide microcomputer sales rose to a record \$653.5 million in fiscal 1983, representing a gain of 186% over last year's \$228.2 million.

Microcomputer systems accounted for 96% of

overall Commodore sales, compared to 75% in fiscal 1982 and 71% in fiscal 1981.

We attribute most of this growth to continuing and accelerating strength in Commodore's complete microcomputer product line, including strong demand for the Commodore 64 personal computer in Canada, Europe and the United States.

Semiconductor Operations

As forecasted in last year's annual report, Commodore's semiconductor manufacturing resources were dedicated to a growing internal demand.

We doubled our semiconductor production in fiscal 1983 and expect to double capacity again in fiscal 1984. Monthly production capacity of silicon wafers has been increased from approximately 30,000 to 60,000 starts per month.

It is estimated that Commodore's semiconductor division is now the fifth largest captive semiconductor operation in North America.

Office Equipment and Consumer Electronics

Office equipment and other consumer products contributed \$17.6 million or 3% of Commodore's fiscal 1983 revenues, compared to \$12.5 million or 4% in fiscal 1982. Commodore's Office Products Division continues to be the leading office equipment manufacturer in Canada.

Commodore Software

During fiscal 1983, we expanded software into a major business—in keeping with our long-term business objectives.

In June 1983 we announced more than 70 new products in the U.S. alone—including the innovative "MAGIC DESK™", an entirely new generation of "user friendly" software developed in-house by Commodore software authors.

Today, we have a strong worldwide following among software authors, including customers. We have entered into significant licensing agreements with proven software companies, and we have strengthened our in-house resources. Our software line is growing rapidly.

In 1984 we intend to become a leader in software as well as hardware. We are on our way toward meeting this goal.

Financial Indicators

Key indicators of our financial performance for 1983 were as follows: accounts receivable of

\$180 million represented approximately 2.5 months of sales based on record sales of \$212 million in the fourth quarter. This compares with \$81.5 million at the end of the previous year, also representing approximately 2.5 months of sales.

Inventories on June 30 increased to \$327 million, consisting of approximately \$200 million in raw materials and work in process, and \$127 million in finished goods. The substantial increase from the prior year is needed to support higher sales projections for the first half of fiscal 1984 in anticipation of seasonal material shortages as well as lengthening lead times and to reduce reliance on air freight from the Orient to North America and Europe. Shipping by sea instead of air is expected to save up to half the cost of company-wide air freight charges, which totalled more than \$15 million in 1983.

Positioning for Growth

This year we took a variety of important steps to position ourselves for growth in fiscal 1984 and beyond.

Here are just a few examples: We expanded our manufacturing capacity by establishing additional manufacturing facilities in Canada, Hong Kong, the United Kingdom and the United States, which increased total worldwide manufacturing and warehouse facilities from 600,000 square feet to 1,500,000 square feet. We negotiated a joint venture with Mitsumi Electric Company in Japan to design and produce floppy disk drives. We licensed the Z8000 16-bit microprocessor from Zilog for use in future generations of computers. Since the end of our fiscal year, we acquired dynamic RAM technology from Micron Technology, Inc. to help further integrate our semiconductor manufacturing. We also implemented licenses for the MS/DOS™ operating system from Microsoft, Inc. and the CP/M®, CP/M 86® and CCP/M® operating systems from Digital Research.

Continuing the Commodore Philosophy in 1984

It is significant that our 25th year in business was devoted to preparation for the future. We believe Commodore is properly positioned to exploit the opportunities, both at hand, and on the horizon. Commodore has succeeded because we encourage entrepreneurs to join the company and develop their ideas. We pride ourselves on our ability to cut costs—treating company budgets as if “every

penny were our own”, keeping our staffing lean and our managers close to operations so decisions can be made quickly, eliminating red tape and bureaucracy so we can “turn on a dime” as our industry demands... while at the same time building a solid structure to support our growing organization.

On behalf of the management of Commodore, we would like to thank you—our shareholders, employees, customers and suppliers—for being such an important part of Commodore’s success. Your loyalty is deeply appreciated.

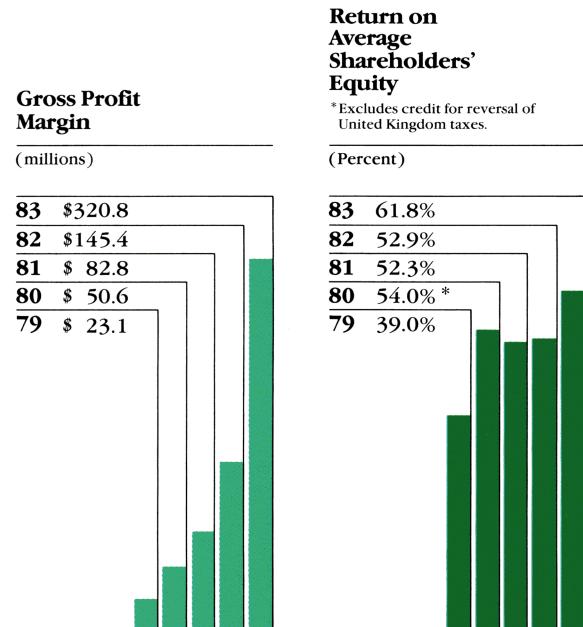
Sincerely,

Irving Gould Jack Tramiel

Irving Gould
Chairman of
the Board

Jack Tramiel
President and
Chief Executive Officer

September 30, 1983



Our First Quarter Century...

Commodore's striking achievements over the past 25 years are not limited to what we've accomplished in business. Equally important is the "Commodore philosophy" which has emerged from the lessons we've learned and the challenges we've faced. Our philosophy of vertical integration, international orientation, focusing of resources, worldwide purchasing, decentralized research and development, manufacturing and marketing in "local" market centers worldwide... this philosophy has remained consistent and grown through the years.

The First Five Years 1958-1963

June 1958: Commodore Portable Typewriter Company is established in Toronto, Canada. **1959:** Begin selling "Everest" typewriters and office machines, including first adding machines. **1960:** Commodore Business Machines, Inc. is established in the U.S. **1961:** Begin world distribution of adding machine line. **1962:** Company becomes public corporation in Canada... Purchase adding machine company in Canada... Start to develop European business... Purchase office machine company in West Berlin...

The Second Five Years 1964-1968

1965: Purchase furniture manufacturing company in Scarborough, Ontario, Canada. **1966:** Incorporate Commodore Electronics Ltd. **1967:** Form Commodore Switzerland... Form Commodore Japan... Obtain license to manufacture and sell Ricoh adding machines... Commodore among the first to offer electronic calculators... Exclusive U.S. distributor of Casio AL-1000 electronic calculator, priced at \$1495. **1968:** Open California office to take advantage of Silicon Valley resources and technology...

The Third Five Years 1969-1973

1969: Introduce digital handheld calculator through European adding machine distribution network. **1970:** Introduce first handheld cal-

culator made in the U.S. **1971:** Mass-market the C108 electronic calculator priced at \$199.95. **1972:** Sell Bowmar and Minuteman calculators and begin manufacturing Commodore calculators in the U.S....

The Fourth Five Years 1974-1978

1974: Calculator prices decline rapidly as vertically integrated component manufacturers enter the marketplace. **1976:** Commodore acquires MOS Technology... CBM Canada Ltd. reorganizes as Commodore International Ltd. headquartered in the Bahamas... MOS Technology introduces KIM 1, first home/hobbyist single board computer, using the MOS-designed 6502 microprocessor... Commodore introduces PET,[®] the first self-contained personal computer... **1978:** Commodore manufactures internal components for more than 50% of digital electronic watches made in Hong Kong... Commodore purchases Frontier Manufacturing, a California-based manufacturer of low-power CMOS chips...

The Past Five Years 1979-1983

1979: Purchase Micro Display Systems, Inc., a Dallas based manufacturer of liquid crystal displays... Commodore expands peripheral range to include disk drives and printers. **1980:** Expand manufacturing in Canada to include computer and peripheral housings... Begin marketing CBM[®] 8000 series business microcomputer and peripherals... Preview prototype VIC-20 at National Computer Convention in Chicago... Introduce VIC-1001 at Seibu Department Store in Tokyo, Japan. **1981:** Open manufacturing plant at Braunschweig, West Germany to supply European markets... Introduce VICMODEM, first consumer-priced modem. **1982:** 1 millionth VIC-20 sold... Commodore begins manufacture of computers in Canada... Introduction of COMMODORE 64 personal computer... Construct 5-inch wafer facility at Costa Mesa, California semiconductor plant. **1983:** Establish 575,000 square foot facility in West Chester, Pennsylvania... Form Commodore software division... Purchase Kwai Chung Center in Hong Kong... Establish Corby, England manufacturing facility... Introduce "B" series business computer... Announce joint venture to manufacture own disk drives... Receive license from Zilog to manufacture Z8000 16-bit microprocessor... Announce plans to build 64K dynamic RAMs.

Commodore International Limited is a fully integrated manufacturer of advanced microcomputer systems, semiconductor components, consumer electronic products, and office equipment. Manufacturing facilities are located in North America, Europe and the Far East. Marketing is worldwide. Research expenditures comprise over 5% of sales and are devoted primarily to the development of new products using solid state integrated circuitry, computer technology and consumer electronics.

Contents

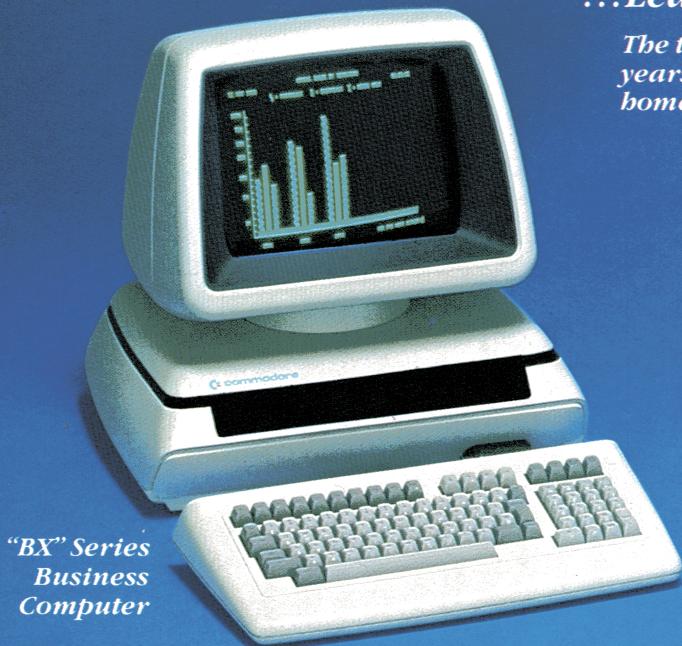
1	Financial Highlights
2	To Our Shareholders
4	Our First Quarter Century
6	Research and Development
8	Manufacturing
10	A Systems Approach
12	Commodore Software
14	World Marketing
16	Worldwide Distribution
17	Financial Report

About the cover

Designing and integrating semiconductor technology into microcomputer systems—this is the basis of Commodore's success.

...Leading to the Future

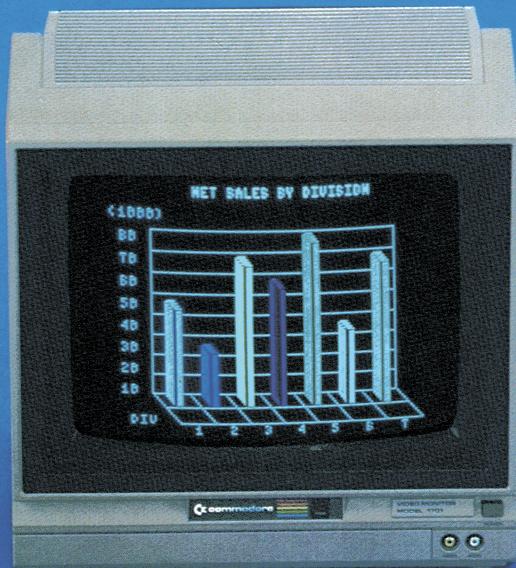
The technology developed during the past 25 years has made Commodore a leader in the home and business microcomputer markets.



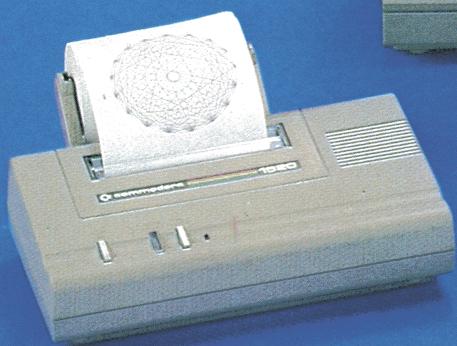
**"BX" Series
Business
Computer**



**Model 6400 Letter
Quality Printer**



1701 Color Monitor



1520 Printer/Plotter



Commodore 64

Research And Development

Commodore's investment in research and development in fiscal 1983 rose more than 100% for the second consecutive year, to \$37.4 million or 5.5% of sales; from \$17.9 million or 5.9% of sales in fiscal 1982; and \$8.4 million or 4.5% of sales in 1981.

These expenditures provide the basis for Commodore's growth as a leader in the microcomputer industry, and allows us to take maximum advantage of the various technologies—at both the component and system level—which exist within our company.

Commodore's decentralized research organization promotes the development of individual projects in many centers around the world, where the best minds in our industry are encouraged to work quickly—often simultaneously—on parallel projects. The ability to work on large scale integrated circuit semiconductor devices or "chips" at the same time the computer systems are being designed reduces not only development costs, but also the time it takes to complete and introduce a product—crucial factors in our industry.

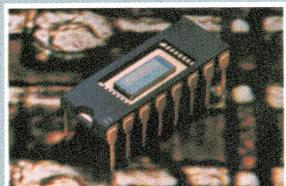
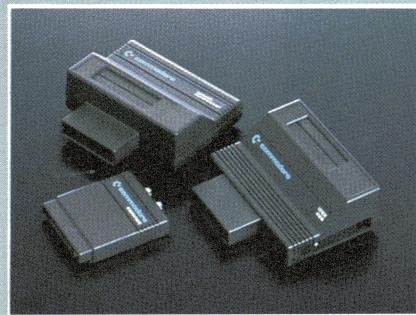
Semiconductor Chip Design

Major research was undertaken in fiscal 1983 to develop a new family of "HMOS" chips. The HMOS process is an improved manufacturing technique which provides higher circuit density on a silicon "chip"; hence, for a given computer function, more chips per wafer and consequent lower cost. New chips were also designed to reduce the overall component count of computer systems, by up to half their previous number. Specifically, large scale integrated circuits designed during fiscal 1983 include:

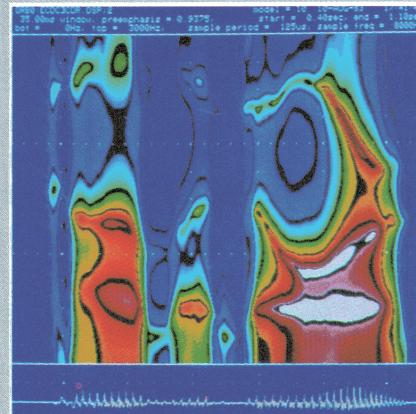
- a new 6500-family microprocessor with optimized access to external memory,
- a color video controller which provides necessary timing functions for interface to a CRT and display data to control graphic and character format,
- a sound chip which provides the voices used to generate sound effects and is the basis for music synthesis,



New product designs on this page represent the "look of the future"—just a few of the numerous products under development at Commodore.



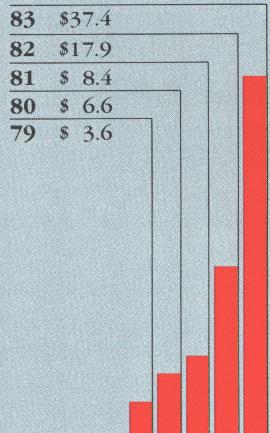
Newly-acquired technology will allow Commodore to produce 64K dynamic RAMs like the one pictured here.



Spectrogram of the word "Commodore", used by Commodore researchers to convert speech into software for the "MAGIC VOICE" speech module.

Research & Development Expenditures

(millions)



- a pair of related parts which generate the master clock for all logic components within a machine,
- a programmable logic array which contains "housekeeping logic",
- a multi-purpose device used to reduce the component count in a number of Commodore products, encompassing a system controller, video controller, display processor and voice generator.

These new chip designs, coupled with recent increases in memory density, will allow Commodore to field new generations of computers which will provide more computing power at less cost.

Operating Systems Software

During the past year, much attention was devoted to adapting the MS/DOS™, CP/M®, Concurrent CP/M® and CP/M 86® operating systems to our computers... primarily for the "B" Series business computer. These operating systems accompany the 8088 microprocessor board which was also developed for the "B" Series, and which allows the use of "industry-standard" applications software packages. We also designed and are now selling a CP/M® cartridge for use with the COMMODORE 64.

Research Becoming Products

Many of the developments which were research projects last year evolved into commercial products in 1983. The COMMODORE 64 and "B" Series business computer are two examples. The Executive 64 color portable computer is another. Several new printers have been introduced, including the MPP-1361 business printer, 1526 serial printer and 6400 letter quality printer. The 1701/1702 color monitor was especially designed for use with Commodore home computers, to provide the "cleanest" possible picture.

The Speech Technology Division has completed its first speech product, a speech synthesis module called the MAGIC VOICE which has a built-in vocabulary for stand-alone use, and also accepts pre-programmed "talking" cartridges. The MAGIC VOICE currently works with the COMMODORE 64. Versions for other Commodore computers are being developed.

Commodore's investment in software research resulted in "new generation" software such as the MAGIC DESK, described on pages 12-13 of this report; and our first talking games—Bally Midway's "Gorf" and "Wizard of Wor"—for use with the MAGIC VOICE.

Manufacturing

Commodore manufactures its products in strategic locations around the world—drawing on the most efficient and reliable sources of raw materials, labor and production facilities.

Commodore's primary manufacturing center is located in Hong Kong, where we employ more than 1,000 people to handle highly technical labor-intensive operations including assembly and testing of semiconductors.

Computer manufacturing centers are located in the following countries: Canada, Hong Kong, Japan, United Kingdom, United States and West Germany. Specific locations are shown on the map on Page 16.

Final assembly and testing generally occur in geographic market centers where our products are sold and distributed. This allows us to tailor our products to the requirements of each major market.

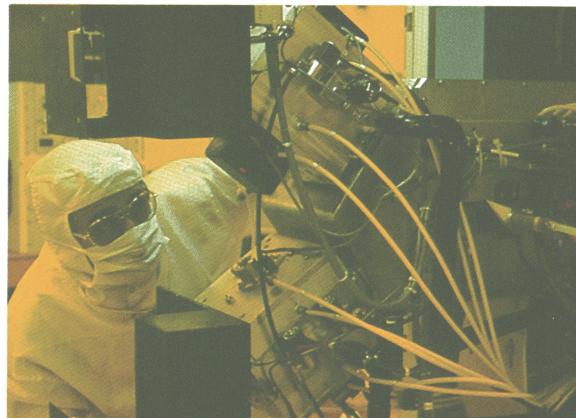
Gearing Up To Produce RAMs

In the coming year Commodore's vertical integration will help minimize the effects of worldwide parts shortages caused by increased demand for microcomputer systems—a by-product of the general economic recovery.

In 1983, ROMs and other devices which we manufacture were easily obtainable, but Dynamic RAMs (Random Access Memory circuits)—which we do not produce—were in short supply. To safeguard against shortages in the future, we have acquired important new technology which enables us for the first time to manufacture 64K Dynamic RAM devices. Our agreement with Micron Technology, Inc. of Boise, Idaho enables us to begin limited RAM production in the second fiscal quarter, with high volume expected during the third and fourth quarters (first half of calendar 1984).

Expanding To Meet Demand

In response to rising demand for our computer products, we doubled our semiconductor produc-



Commodore has one of the largest captive semiconductor operations in the world. Our new 5-inch wafer fabrication facility helped double production in fiscal 1983.

tion for the second consecutive year.

Semiconductor volume at our two U.S. facilities and in Hong Kong will continue to grow during fiscal 1984 due to new chip and wafer designs, higher efficiency and increased production capacity.

We are also expanding our geographic manufacturing centers. This year we occupied a new 575,000 square foot combined administrative, computer assembly and warehouse facility in West Chester, Pennsylvania (U.S.). We also initiated design and construction of a major manufacturing and warehousing complex in Corby, England.



World manufacturing centers are strategically located in Europe, North America and the Orient, to best serve the geographic markets where our products are sold.

The Corby facility will become fully operational by the end of fiscal 1984.

We also made a major investment in Hong Kong with the purchase of a new 220,000 square foot plant (the "Kwai Chung Center") which will more than double our production capacity during fiscal 1984.

In the United States, a previous investment began to pay off when we achieved high volume production of microcomputer components, spurred by output from the ultra-modern 5-inch wafer processing plant constructed in Costa Mesa, California in fiscal 1982.

Responding to market demand, we have increased our capacity to produce in volume peripherals such as disk drives, printers and monitors. Especially important is our joint venture with Mitsumi Electric Company in Japan, which provides for the future manufacture of floppy disk drives.

In the coming year, we will also achieve significant cost savings by centralizing our software manufacturing in Hong Kong. Individual countries will handle pilot production only. Translating these lower costs into lower prices gives us an important competitive edge.

Commodore computers are in more homes than any other brand. By January 1983, more than one million VIC-20's had been sold, and the COMMODORE 64 is rapidly moving toward that level. The aftermarket for peripherals and software among these computer owners is becoming a major market for Commodore.

Affordable Home Computer Systems

In fiscal 1983, most people who purchased home computers thought of the computer as a stand-alone console coupled with an inexpensive cassette tape recorder for storing and retrieving programs. VIC-20 and COMMODORE 64 owners listed their primary computing interests as entertainment and learning how to program. Our best-selling software included games like Bally Midway's "GORF" and "OMEGA RACE" and self-teaching courses in BASIC programming like INTRODUCTION TO BASIC and GORTEK.

By the end of fiscal 1983, the price of a VIC-20 or COMMODORE 64 computer system—computer, disk drive or cassette recorder, printer, modem and software—had fallen to under \$1000. For the first time in history, the average consumer could afford to purchase a complete computer system... and benefit from wordprocessing, electronic spreadsheets, budgeting, home finance and other applications.

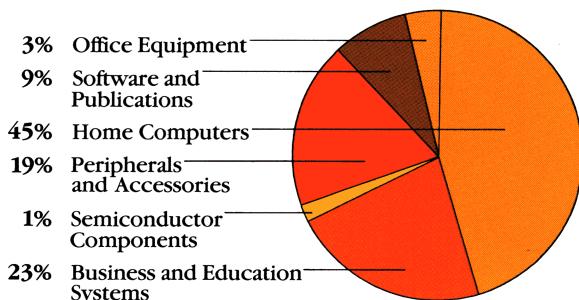
Educational Systems

We believe more Commodore computers are used worldwide for educational purposes than any other microcomputer.

In Canada, the United Kingdom and United States, Commodore has been a leader in educational computing since the birth of this industry. In many countries, Commodore computers are preferred systems... in West Germany, for example, Commodore microcomputers now represent an estimated more than 80% of all microcomputers used in schools.

This year, we introduced the PET® 64—a monochrome version of the COMMODORE 64 in

1983 Sales by Product Category



a self-contained housing with a built-in monitor. We also successfully tested a low-priced networking system which can tie together all types of Commodore computers including the PET, VIC-20 and COMMODORE 64. This innovation will help increase sales of multiple systems to educational institutions.

Business Systems

Business computing represents one of Commodore's most promising expansion opportunities. We believe competitively-priced business microcomputers can be marketed in volume and made as attractive and "friendly" as home computers—but with the professional in mind.

Our new entry in the business marketplace—the Commodore "B" Series computer system—has been introduced and is being sold in Europe and North America. This low-cost 128K RAM version features an 80 column screen, an optional 16-bit microprocessor and a 96-key professional level keyboard. This powerful business microcomputer is being offered at prices comparable to or below many personal computers with far less internal RAM and less comparable features.

To provide high capacity storage required by business users, our 9000-series Winchester hard disk and CBM 8250 two megabyte floppy disk drive were introduced for sale this year, along with our new Model 6400 letter quality printer.

Portable Computing

Portable computing is becoming very popular among executives, students and others who like to transport and use their computers in different locations. Commodore has entered the portable marketplace with our EXECUTIVE 64, the first af-



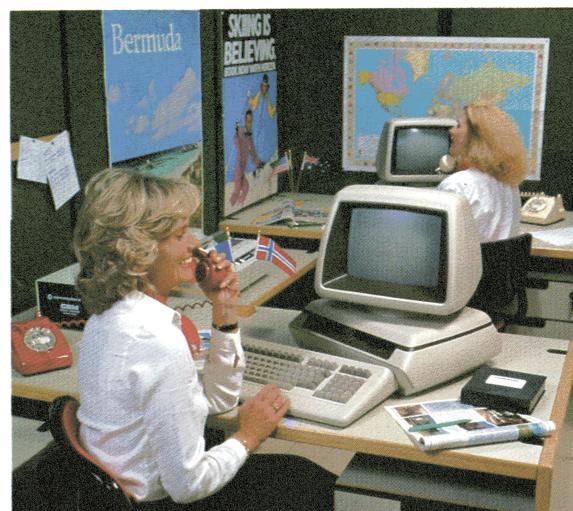
With the largest installed base of home computers in the world, Commodore is well-positioned to participate in increased demand for peripherals and software as VIC-20 and COMMODORE 64 owners expand their computer systems.

fordable color portable computer. It is software compatible with the COMMODORE 64 and has a 170K built-in disk drive and built-in 5-inch color monitor.

Telecommunications

Commodore was the first microcomputer manufacturer to introduce a telephone modem priced under \$100. The VICMODEM consists of a plug-in cartridge which works with either the VIC-20 or COMMODORE 64 and is popular in North America where users take advantage of free subscriptions enclosed with the modem for the CompuServe™ and Dow Jones™ information services. A "Commodore Information Network" featuring news, programming tips and a "hotline" is also maintained by Commodore, much like an electronic magazine.

This year, Commodore introduced a low-priced auto-dial/auto-answer modem called AUTOMODEM for the COMMODORE 64 and VIC-20.



The "B" Series family of microcomputers provides an excellent basis for further expansion into the small business market.

Market Strategy

Our strategy continues to unfold—which is to continue our leadership role in the microcomputer industry not only in the home computing market, but in business and education as well, and in new microcomputer markets as they evolve.

Commodore has committed major financial and creative resources to the development of high quality software for all of our computers. We intend to become a leader in the software field, in quality as well as pricing, marketing and distribution.

The vanguard of this new commitment is our Commodore Software Division, established in April, 1983 and headquartered in the United States. This division has already negotiated several important new software licenses including a business accounting series, a set of 6 best-selling strategy games, and 100 educational programs from the Minnesota Education Computing Consortium (MECC).

Software support is also provided by our expanded in-house programming and documentation staff which develops proprietary software such as the MAGIC DESK series, and commercial book products like our best-selling PROGRAMMERS REFERENCE GUIDES. Of course, software development is an international effort and we have an important advantage in being able to draw on the talents of software developers from around the world.

70 New Software Products Announced At CES

The first result of our new software effort was the announcement of 70 new software programs at the June 1983 Consumer Electronics Show. Programs demonstrated covered all four major software market categories: Recreation/Lifestyle, Business/Productivity, Education/Home Learning and Programming Aids.

The new software was developed in several different countries and includes a wordprocessor from the United Kingdom, game cartridges from Japan and an electronic spreadsheet from Sweden. Canada provided 27 software products containing over 600 public domain programs, and the United States provided software in all categories.

This assortment includes important "nucleus software"—programs which every computer

owner should have such as a wordprocessor, electronic spreadsheet and database—as well as Bally/Midway arcade quality cartridge games and low-priced business accounting packages.

Mass Marketing Software

In June 1983, Commodore took the first steps toward mass-marketing software by reducing the price of software by up to 50%. For example, we are now able to provide professional wordprocessing and business accounting software in the \$50 price range. To make this possible, the company has transferred volume software production from individual market centers to our manufacturing facilities in Hong Kong. We are also working with vendors and developers to obtain maximum economies of scale.

MAGIC DESK—Next Generation Of Software

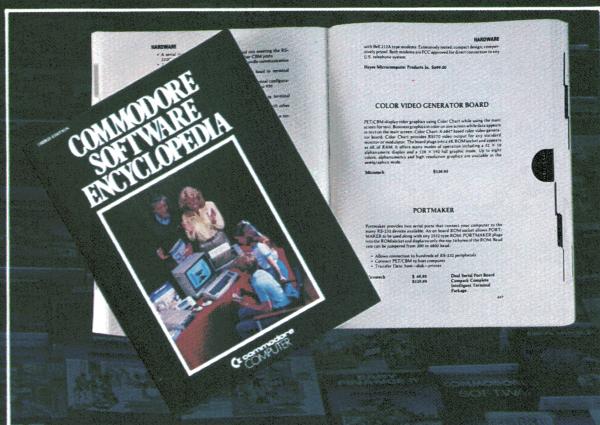
One of the most important software developments of the year was the introduction of our proprietary MAGIC DESK software. This unique software is based on pictorial commands, with no language commands whatsoever. Using a joystick, the user moves a pointing finger to the picture of a feature, such as a typewriter, then presses the "action" button. After typing a page on the computer keyboard, the user can save the page in a "file cabinet" which is automatically linked to the software, or print the page on paper using a Commodore printer. If questions arise, built-in "help menus" explain the procedure in detail. More MAGIC DESK products are under development and it is expected that this will be a highly popular series.

Commercial Book Products

Computer book products are another potentially important form of software for Commodore, and we are expanding this product line to take advantage of the strong aftermarket potential. Our popular VIC-20 and COMMODORE 64 PROGRAMMERS REFERENCE GUIDES—developed at Commodore—have been listed as "best-sellers" on numerous reference lists, along with our programming tutorials like GORTEK and INTRODUCTION TO BASIC. During the coming year, we will introduce additional commercial books and tutorials, including several self-teaching products for the COMMODORE 64 and a four-book set for the VIC-20.

The 3rd Edition of the COMMODORE SOFTWARE ENCYCLOPEDIA includes more than 900 pages of software listings for Commodore computers.

A new generation of "user-friendly" software was established by Commodore's innovative "MAGIC DESK" series, which uses familiar pictures to control computerized typing, filing and other functions.



No other microcomputer company has had the international marketing success achieved by Commodore.

Industry sources now rank Commodore as the number 1 personal computer company, with an estimated 35% -40% share of the world market in units and over 40% of sales for computers priced under \$500.

For computers priced in the \$1,000-\$5,000 range we are ranked fourth in market share—with our new "B" Series just beginning to enter the market.

The key to our success in marketing to customers and dealers in over 60 countries lies in our emphasis on geographic marketing centers. Each major world market has either a Commodore sales company or distributor to serve it, staffed by talented people who understand the special needs of their cultural environment.

In addition to sales and marketing, we maintain software development, research, warehousing and distribution in each market center so we can better serve the linguistic, technical and cultural needs of the geographic area.

Record Advertising in 1983

Commodore's worldwide advertising budget was \$63.6 million, compared to \$23.0 million in the previous year. This expenditure contributed to the dramatic increase in Commodore "brand recognition"—and sales—in all major markets.

Our messages were clever, competitive, and creative: We asked the question: "Why Buy Just A Game Machine When You Can Get A True Computer For The Same Price?" We urged customers to forsake video game machines and buy the "Commodore VIC-20—A Real Computer For the Price of a Toy."

We said, "Become great at Pac-Man and you could be the envy of the neighborhood. Become great at the COMMODORE VIC-20 home computer and you could own the neighborhood!"

We compared the COMMODORE 64 to other popular microcomputers... with an interesting

twist. An ironic voice announced that based on price/performance, other computers such as Apple and IBM recommended the COMMODORE 64.

In Canada, we sang, "I Adore My 64" and in a unique joint promotion, families read about the VIC-20 on the back of over 3 million cereal boxes.

In West Germany, where the VIC-20 is called the "Volks Computer" (VC-20), we awarded a Volkswagen car as part of a nationwide software contest.

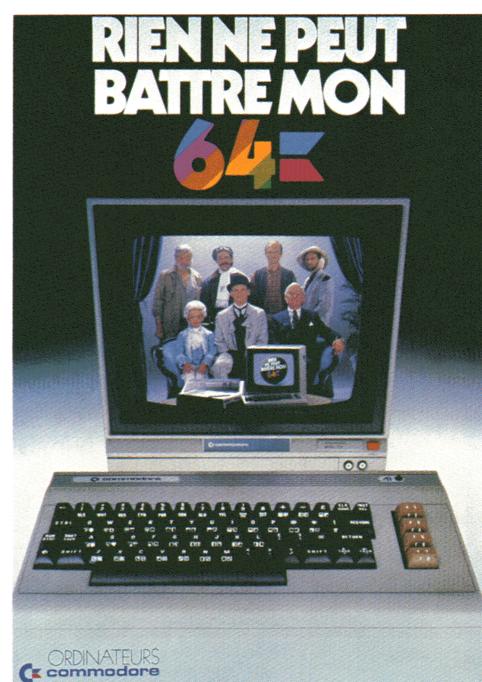
Our advertising efforts received several creative awards including two CLIO awards... among the most prestigious awards in the advertising industry.

Commodore Magazines Read By 500,000 Readers

During the past year, Commodore became a leading publisher of computer magazines. We now publish half a dozen magazines worldwide with monthly readership exceeding half a million. These magazines provide news, product announcements, programming tips and commentary which helps us keep the communication channels open to our growing aftermarket of Commodore computer owners. We believe these owners to be our best salespeople. Our magazines are an important line of communication with them.

Shows and Exhibitions

Commodore was an active participant in the major international computer shows, which we've been



LE RETOUR AVEC LE SAC!



ORDINATEURS
COMMODORE



attending since we introduced the PET® in 1976.

At Hannover Fair in West Germany—the largest industrial exposition in the world—we received a design award for the "B" Series business computer system.

At the June Consumer Electronics Show in Chicago—we received 5 awards for COMMODORE 64 software selected for the CES Software Exhibition.

In the United Kingdom, the annual Commodore Computer Show (largest Commodore product exhibition in the world), drew a record number of attendees and had more exhibitors showing Commodore software and accessories than ever before. Germany also hosted their second annual Commodore Show.

What's In A Name?

When we named our 64K color computer the "COMMODORE 64", it was the first time we used the Commodore name as a product name. The re-

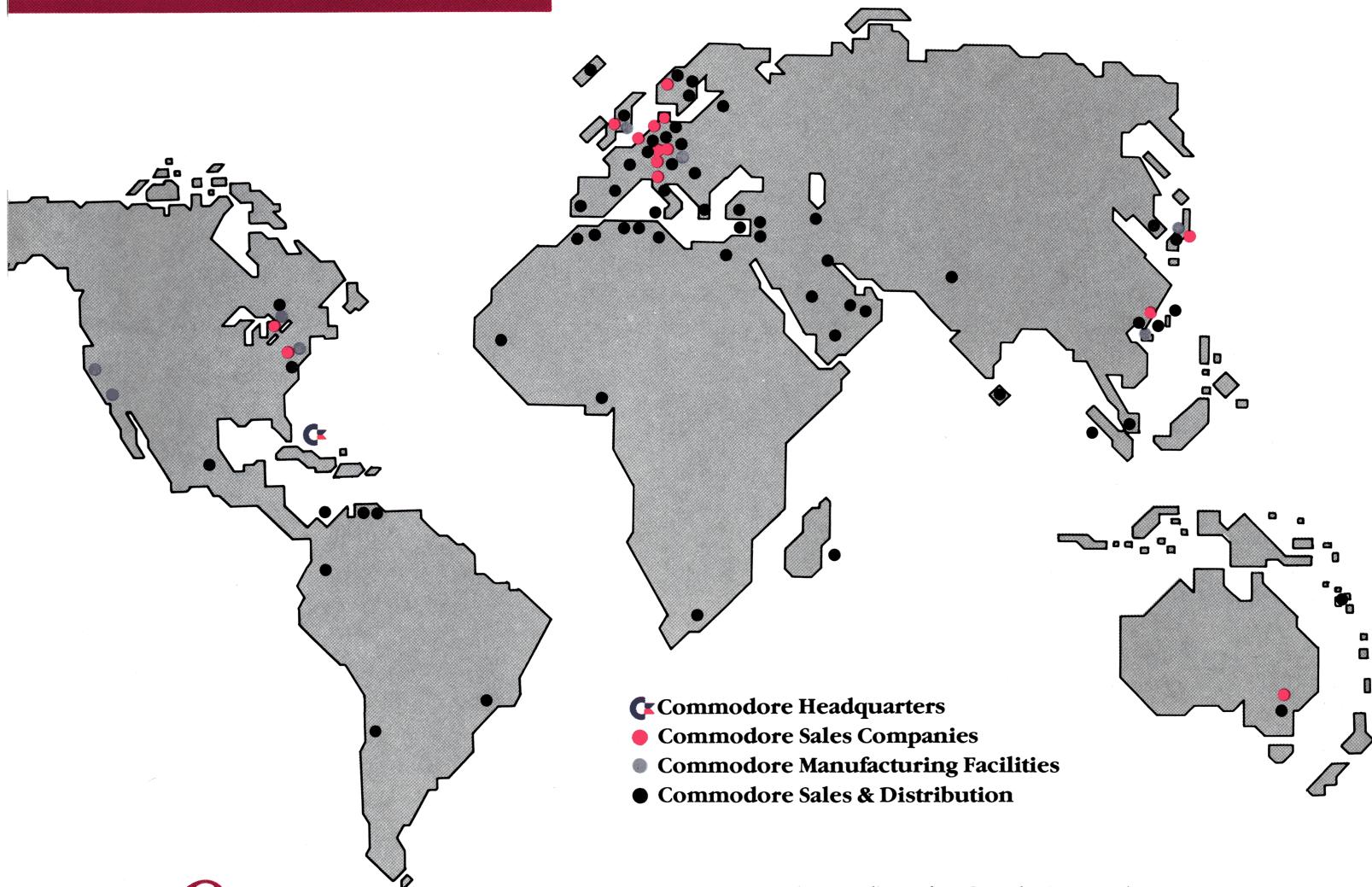
sulting brand recognition was so strong that we will be using the COMMODORE designation in future home computers, as well. We also named our new pictorial-command software series the MAGIC DESK and extended the "magic" name to our speech module, which is called THE MAGIC VOICE and will be introducing a Commodore-written book called "The VIC Magician" based on a series of magazine articles.

Thinking International

Marketing ideas and approaches vary from country to country. Our success comes from "thinking" international. In Europe we're European. In Japan we're Japanese. In America we're American. In Hong Kong we're Chinese...

The depth and involvement of our activity in each country makes Commodore truly international, because we "think" and do business in the local languages and cultures of the customers we serve.

Worldwide Distribution



One of Commodore's principal strengths is its worldwide retail distribution.

Creating mass distribution for home computers is one of Commodore's most salient achievements. The number of outlets carrying Commodore home computers has expanded from less than 3,000 stores in 1981 to nearly 30,000 worldwide at the end of fiscal 1983.

Commodore computer systems are now sold in the world's most successful retail stores, including Åhlens (Sweden), Boots (U.K.), Eaton's (Canada), Harrad's (U.K.), G.B.C. (Italy), K-Mart (U.S.), Quelle (Germany), Sears (U.S.)... and many more.

In Germany, the number of outlets carrying Commodore computers was extended from 500 to 6,000 during fiscal 1983.

In the United Kingdom, Commodore computers are sold in such prestigious store chains as

Boots and Harrod's, and in Canada Commodore computers outsold the competition in chains such as Eaton's.

During the past year, the number of dealers in Australia/Asia and the Pacific Basin grew to over 800 dealers, with distributors established in all major countries in East and Southeast Asia including: China, Taiwan, South Korea, Hong Kong, Thailand, Singapore, Malaysia, the Philippines, Indonesia and New Zealand.

Additionally, Commodore has acquired 100% of a former joint venture in Denmark, Norway and Holland, and targeted the Benelux countries for a major expansion effort. Our penetration of the world marketplace continues, in keeping with Commodore's multinational orientation.

Specific locations of Commodore companies, manufacturing facilities and distributors are shown on the accompanying map.

Contents

18	Financial Review
19	Five-Year Comparison of Selected Financial Data
20	Consolidated Statements of Operations
21	Consolidated Balance Sheets
22	Consolidated Statements of Shareholders' Equity
23	Consolidated Statements of Changes in Financial Position
24	Notes to Consolidated Financial Statements
32	Auditors' Report
32	Common Stock Information
33	Corporate Information

Net Sales

Net sales increased to a record \$681.2 million in fiscal 1983 from \$304.5 million in 1982 and \$186.5 million in 1981, as a result of outstanding consumer acceptance of Commodore's complete line of microcomputers and peripheral products. Computer systems accounted for 96% of 1983 sales compared with 75% in 1982 and 71% in 1981. As highlighted in the table below, the major growth occurred in the United States and Canada where the VIC 20 was introduced in the fourth quarter of fiscal 1981 and the Commodore 64 was introduced in the first quarter of fiscal 1983. Volume expanded significantly as manufacturing efficiencies enabled the Company to make major price reductions during fiscal 1983.

Net Sales

(millions)

	1983	% Change	1982	% Change	1981
U.S.	\$393.0	173%	\$143.7	164%	\$ 54.5
Canada	107.6	252	30.6	48	20.7
Europe	155.6	47	106.0	24	85.6
Asia	25.0	3	24.2	(6)	25.7
	\$681.2	124%	\$304.5	63%	\$186.5

Costs, Expenses and Profit Margins

Improvements in semiconductor and systems technology and manufacturing methods, as well as higher production volumes, have resulted in lower unit product costs. Accordingly, gross profit was affected only slightly by lower unit selling prices in 1983. Gross profit margin was 47.1% in 1983 compared with 47.8% in 1982 and 44.4% in 1981.

To reach the consumers in the home computer market, the Company launched a major television advertising effort, primarily in the United States and Canada. Total advertising expenses in 1983 were \$63.6 million, compared with \$23.0 million in 1982 and \$5.5 million in 1981. Excluding advertising expenses, other selling, general and administrative expenses grew less rapidly than the increase in net sales. Total selling, general and administrative expenses were 23.9% of sales in 1983 compared with 23.2% in 1982 and 21.3% in 1981.

To maintain the Company's unique competitive advantage, heavy research and development effort has been focused on semiconductor and systems technology. The Company also expanded its software development group. Total research and development costs increased 109% in 1983 to \$37.4 million after an increase of 113% in 1982.

Pretax income has remained around 16.5% during the past three years. The Company's effective income tax rate has increased from 19% in 1981 to 22% in 1983 as a result of a smaller proportion of income in jurisdictions with low tax rates. The impact of inflation is presented in the notes to the consolidated financial statements.

Liquidity and Capital Resources

Working capital provided by operations reached a record \$104.3 million in fiscal 1983, compared with \$49.0 million in 1982 and \$30.8 million in 1981. The most significant item contributing to this increase was the record income before extraordinary item of \$88.0 million in 1983 as compared with \$40.6 million in 1982 and \$24.9 million in 1981.

To fund a portion of the Company's rapid growth, new long-term debt of \$78.0 million was incurred in 1983, compared with \$16.9 million in 1982 and \$10.6 million in 1981. The 1983 increase included \$60 million obtained under a five-year evergreen revolving credit agreement negotiated in May 1983 with a group of eight banks led by Manufacturers Hanover Trust Company and Continental Illinois National Bank and Trust Company of Chicago. The proceeds were used in part to repay \$25 million outstanding under existing long-term bank agreements. As in prior years, a significant portion of the remaining increase in external debt was attributable to capital leases.

Capital expenditures increased 83% in 1983 to \$46.4 million, after an increase of 57% in 1982. In 1983 over \$30 million was expended in the U.S., including the following: acquisition of the West Chester, Pa. building lease—\$8.6 million; expansion of wafer fabrication capacity in Costa Mesa—\$9.8 million and introduction of the HMOS process at the Norristown plant—\$6.6 million. Approximately \$6 million was expended in Hong Kong, including the purchase of a 220,000 sq. ft. manufacturing plant and the expansion of production capacity for semiconductor and printed circuit board assembly.

In 1983 working capital more than doubled to a record \$204.8 million from \$99.1 million in 1982 and \$61.5 million in 1981. In fiscal 1983 the Company had a significant planned increase in inventories to support the higher level of sales. Extended payment terms were obtained from several overseas suppliers for a portion of the increased level of inventory.

Five-Year Comparison of Selected Financial Data

Commodore International Limited and Subsidiaries
(000s omitted, except per share amounts)

Year Ended 30 June	1983	1982	1981	1980	1979
Net sales	\$681,200	\$304,500	\$186,500	\$125,600	\$71,100
Gross profit	320,800	145,400	82,800	50,600	23,100
Operating expenses	199,900	88,400	48,100	29,100	13,000
Interest expense, net	8,000	6,200	3,900	3,200	2,100
	207,900	94,600	52,000	32,300	15,100
Income before income taxes and extraordinary item	112,900	50,800	30,800	18,300	8,000
Provision for income taxes (net of reversal of \$1,700 in 1980 for U.K. taxes)	24,900	10,200	5,900	2,100	2,000
Income before extraordinary item	88,000	40,600	24,900	16,200	6,000
Extraordinary item ⁽¹⁾	3,700	3,700	500	700	500
Net income	\$ 91,700	\$ 44,300	\$ 25,400	\$ 16,900	\$ 6,500
Earnings per share ⁽²⁾ :					
Income before extraordinary item ⁽³⁾	\$ 2.86	\$ 1.32	\$.81	\$.52	\$.20
Extraordinary item ⁽¹⁾	.12	.12	.01	.02	.02
Net income	\$ 2.98	\$ 1.44	\$.82	\$.54	\$.22
Weighted average shares ⁽²⁾	30,809	30,800	30,920	31,186	29,160
Financial Position—30 June					
Current assets	\$532,700	\$182,300	\$111,700	\$ 67,100	\$41,400
Current liabilities	327,900	83,200	50,200	29,100	29,500
Working capital	204,800	99,100	61,500	38,000	11,900
Total assets	614,600	235,400	145,100	88,900	57,500
Long-term debt	92,000	44,400	32,000	24,300	5,500
Shareholders' equity	190,700	105,900	61,600	35,500	20,800

(1) Tax benefit of net operating loss carryforward.

(2) Earnings per share and weighted average shares for fiscal years 1979 through 1982 have been restated to reflect all stock splits.

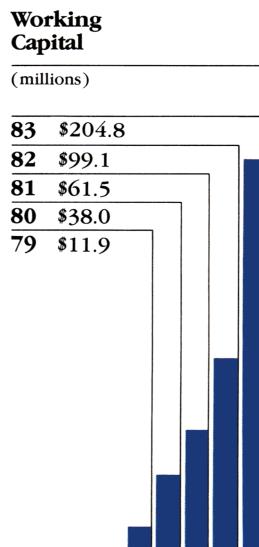
(3) Includes \$.05 relating to reversal of U.K. taxes in fiscal 1980.

Consolidated Statements of Operations

Commodore International Limited and Subsidiaries
(000s omitted, except per share amounts)

Year Ended 30 June	1983	1982	1981
Net sales	\$681,200	\$304,500	\$186,500
Cost of sales	360,400	159,100	103,700
Gross profit	320,800	145,400	82,800
Operating expenses:			
Selling, including advertising	138,400	52,400	25,500
General and administrative	24,100	18,100	14,200
Research and development	37,400	17,900	8,400
	199,900	88,400	48,100
Income from operations	120,900	57,000	34,700
Interest expense, net of interest income of \$1,800, \$4,900 and \$3,500, respectively	8,000	6,200	3,900
Income before income taxes and extraordinary item	112,900	50,800	30,800
Provision for income taxes	24,900	10,200	5,900
Income before extraordinary item	88,000	40,600	24,900
Extraordinary item	3,700	3,700	500
Net income	\$ 91,700	\$ 44,300	\$ 25,400
Earnings per share:			
Income before extraordinary item	\$ 2.86	\$ 1.32	\$.81
Extraordinary item	.12	.12	.01
Net income	\$ 2.98	\$ 1.44	\$.82

The accompanying notes are an integral part of these statements.



Consolidated Balance Sheets

Commodore International Limited and Subsidiaries
(000s omitted)

	30 June 1983	30 June 1982
Assets		
Current Assets:		
Cash, including certificates of deposit	\$ 23,400	\$ 6,800
Accounts receivable, net of allowances for doubtful accounts of \$11,000 and \$3,800, respectively	180,000	81,500
Inventories:		
Raw materials and work-in-process	199,400	47,500
Finished goods	127,400	44,800
	326,800	92,300
Prepaid expenses	2,500	1,700
Total current assets	532,700	182,300
Property and equipment, at cost	106,500	68,600
Less—accumulated depreciation and amortization	28,600	19,000
	77,900	49,600
Investment in unconsolidated finance subsidiary	2,200	2,000
Other assets	1,800	1,500
	\$614,600	\$235,400
Liabilities and Shareholders' Equity		
Current Liabilities:		
Loans payable	\$ 15,900	\$ 3,500
Current portion of long-term debt	5,400	4,500
Accounts payable	246,300	52,000
Accrued liabilities	36,400	13,100
Income taxes payable	23,900	10,100
Total current liabilities	327,900	83,200
Long-term debt	92,000	44,400
Deferred income taxes	4,000	1,900
Shareholders' Equity		
Common stock, \$.01 par value		
Authorized—45,000,000 shares		
Issued and outstanding—30,782,332 and 15,210,000 shares, respectively	300	200
Contributed surplus	13,700	10,700
Retained earnings	186,900	95,200
Cumulative translation adjustment	(10,000)	—
Treasury stock	(200)	(200)
Total shareholders' equity	190,700	105,900
	\$614,600	\$235,400

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Commodore International Limited and Subsidiaries
(000s omitted)

	Common Stock	Contributed Surplus	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock	Total
Balance, 30 June 1980	\$ 3,300	\$ 1,300	\$ 30,900	\$ —	\$ —	\$ 35,500
Net income	—	—	25,400	—	—	25,400
Issuance of shares pursuant to stock split	6,700	(1,300)	(5,400)	—	—	—
Exercise of employee stock options	100	200	—	—	—	300
Compensation related to employee stock options	—	400	—	—	—	400
Balance, 30 June 1981	10,100	600	50,900	—	—	61,600
Net income	—	—	44,300	—	—	44,300
Reduction in par value from \$1.00 to \$.01	(10,000)	10,000	—	—	—	—
Issuance of shares pursuant to stock split	100	(100)	—	—	—	—
Exercise of employee stock options	—	200	—	—	—	200
Acquisition of treasury shares pursuant to court order	—	—	—	—	(200)	(200)
Balance, 30 June 1982	200	10,700	95,200	—	(200)	105,900
Net income	—	—	91,700	—	—	91,700
Effect of restating asset and liability balances of 1 July 1982 for adoption of FAS No. 52	—	—	—	(4,200)	—	(4,200)
Foreign currency translation adjustments for period	—	—	—	(5,800)	—	(5,800)
Issuance of shares pursuant to stock split	100	(100)	—	—	—	—
Exercise of employee stock options, including income tax benefits	—	3,100	—	—	—	3,100
Balance, 30 June 1983	\$ 300	\$13,700	\$186,900	\$(10,000)	\$(200)	\$190,700

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

Commodore International Limited and Subsidiaries
(000s omitted)

Year Ended 30 June	1983	1982	1981
Working Capital was Provided by:			
Income before extraordinary item	\$ 88,000	\$40,600	\$24,900
Items not requiring working capital—			
Depreciation and amortization	14,400	7,800	4,600
Deferred income taxes and other	1,900	600	1,300
Total working capital provided by operations	104,300	49,000	30,800
Extraordinary item	3,700	3,700	500
Proceeds from long-term debt	78,000	16,900	10,600
Net book value of property and equipment retired	2,500	700	300
Proceeds, including income tax benefits and compensation, from exercise of stock options	3,100	200	700
Total working capital provided	191,600	70,500	42,900
Working Capital was Applied to:			
Purchase of property and equipment	46,400	25,400	16,200
Transfer of long-term debt to current portion	5,400	4,500	2,900
Repayment of long-term debt	25,000	—	—
Effect of exchange rate changes on working capital	8,800	—	—
Investment in unconsolidated finance subsidiary	—	2,000	—
Increase in other assets	300	800	300
Acquisition of treasury shares	—	200	—
Total working capital applied	85,900	32,900	19,400
Increase in working capital	\$105,700	\$37,600	\$23,500
Analysis of Increase in Working Capital:			
Increase (decrease) in current assets—			
Cash	\$ 16,600	\$(2,700)	\$ 4,400
Accounts receivable	98,500	33,400	22,800
Inventories	234,500	39,500	16,700
Prepaid expenses	800	400	700
	350,400	70,600	44,600
Increase (decrease) in current liabilities—			
Loans payable	12,400	(400)	1,300
Current portion of long-term debt	900	1,600	1,900
Accounts payable and accrued liabilities	217,600	28,000	15,800
Income taxes payable	13,800	3,800	2,100
	244,700	33,000	21,100
Net increase in working capital	105,700	37,600	23,500
Working capital, beginning of year	99,100	61,500	38,000
Working capital, end of year	\$204,800	\$99,100	\$61,500

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Commodore International Limited and Subsidiaries
30 June 1983

1. Summary of Accounting Policies

The consolidated financial statements of Commodore International Limited and Subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States. Within those principles, the Company's more important accounting policies are set forth below.

Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries except for Commodore Credit Inc., the Company's finance subsidiary, as its operations are dissimilar to the manufacturing and marketing operations of the consolidated group. All significant intercompany accounts, transactions and profits have been eliminated.

Translation of Non-U.S. Currencies

Effective 1 July 1982, the Company adopted the U.S. Financial Accounting Standard No. 52-Foreign Currency Translation. Under this method, all assets and liabilities recorded in functional currencies other than U.S. dollars are translated at current exchange rates. The resulting adjustments are charged or credited directly to cumulative translation adjustment in the shareholders' equity section of the consolidated balance sheet. Sales and expenses are translated at the weighted average exchange rates for the period. All transaction gains and losses are included in income in the period in which they occur. Such gains and losses on currency transfers only, were not material. As permitted by the Standard, the consolidated financial statements for years prior to fiscal 1983 have not been restated.

Inventories

Inventories are stated at the lower of cost (principally first-in, first-out) or market, and are inclusive of material, labor and overhead. Intercompany profits are eliminated from inventory valuations.

Research and Development Costs

The Company expenses all research and development costs, including software development costs, as incurred.

Property and Equipment

Major classes of property and equipment were as follows (000s omitted):

Description	30 June 1983	30 June 1982	Estimated Useful Lives
Land	\$ 1,900	\$ 1,800	
Machinery and equipment	72,500	49,100	3-10 Years
Buildings and improvements	18,900	6,900	15-40 Years
Furniture and fixtures	4,500	3,000	3-15 Years
Tooling	3,800	3,300	2-4 Years
Leasehold improvements	4,900	4,500	Life of Lease
	\$106,500	\$68,600	

Depreciation has been provided over the estimated useful lives of the assets using primarily the straight-line method. Expenditures for additions, renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Income Taxes

The Company and its subsidiaries compute taxes on income in accordance with the tax rules and regulations of the many taxing authorities where the income is earned. The income tax rates imposed by these taxing authorities vary substantially. Taxable income may differ from pretax income for financial accounting purposes. To the extent that differences are due to expense items reported in one period for tax purposes and in another period for financial accounting purposes, appropriate provision for deferred income taxes is made.

Investment credits and other allowances provided by income tax laws of the United States and other countries are credited to current income tax expense under the flow-through method of accounting.

Earnings Per Share

Earnings per share are calculated using the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during each year. The weighted average number of shares used to compute earn-

ings per share was 30,809,000, 30,800,000 and 30,920,000 in 1983, 1982 and 1981, respectively. The weighted average number of shares for 1982 and 1981 have been restated to reflect stock splits (See Note 6).

2. Income Taxes

The provision for income taxes consisted of the following (000s omitted):

Current:	1983	1982	1981
U.S. Federal income taxes	\$13,000	\$ 6,900	\$2,100
U.S. state income taxes	3,200	1,500	1,000
Non-U.S. income taxes	6,600	1,200	1,500
	22,800	9,600	4,600
Deferred (non-U.S.)	2,100	600	1,300
	\$24,900	\$10,200	\$5,900

Non-U.S. earnings before income taxes and extraordinary item amounted to \$81,900,000 in 1983, \$40,800,000 in 1982 and \$36,700,000 in 1981. Deferred taxes arose principally from tax depreciation being in excess of depreciation for financial accounting purposes.

The Company, which is incorporated in the

Bahamas, and its subsidiaries are engaged in business in countries with statutory tax rates ranging from zero to approximately 65%. The difference between the U.S. Federal income tax rate of 46% and the Company's effective tax rate of 22%, 20% and 19% in 1983, 1982 and 1981, respectively, was due principally to operations in countries which do not levy income taxes or in which the tax rates were significantly lower than the U.S. rate. Each year the effective tax rate included approximately 2% for U.S. state income taxes, net of the Federal tax benefit. U.S. investment tax credits of \$2,000,000 generated in 1983 and \$2,000,000 carried forward from 1982 and prior years reduced the 1983 effective tax rate by 3.5%.

Utilization of prior year loss carryforwards has been treated as an extraordinary item in the consolidated statements of operations.

3. Commodore Credit Inc.

On 30 June 1982, the Company entered into an operating agreement with Commodore Credit Inc., a finance subsidiary. The investment in this subsidiary is carried on the equity basis. The finance subsidiary from time to time purchases receivables without recourse from the Company. The Company is reimbursed for certain administrative services rendered to the finance subsidiary and is required to maintain net earnings of the finance subsidiary at a multiple of fixed charges.

Condensed financial information for the finance subsidiary is as follows (000s omitted):

	30 June	
	1983	1982
Assets:		
Cash	\$ 250	\$ 250
Accounts receivable	12,150	11,750
	\$12,400	\$12,000
Liabilities and Shareholder's Equity:		
Notes payable	\$10,000	\$10,000
Income taxes payable	200	—
Shareholder's equity	2,200	2,000
	\$12,400	\$12,000

4. Loans Payable

As of 30 June 1983, the Company had unused lines of credit of \$84,000,000 available in various currencies which permit borrowings at interest rates based upon prime, base rate, bankers' acceptances or cost of funds. Interest rates vary from country to country depending upon local conditions. In certain countries, under various informal and unrestricted arrangements, the Company maintains compensating balances to support credit facilities and services.

The maximum month-end short-term borrowings during 1983 were \$33,400,000 (1982—\$43,000,000; 1981—\$27,900,000). The average borrowings outstanding during 1983 were \$23,600,000 (1982—\$29,600,000; 1981—\$17,100,000) at a weighted average interest rate of 12.8% (1982—16.4%; 1981—17.8%). As of 30 June 1983 the weighted average interest rate was 12.4% (1982—15.3%; 1981—13.2%).

5. Long-Term Debt

(000s omitted)	30 June 1983	1982
Revolving credits:		
Due April 1985-January 1988	\$60,000	\$ —
Due July 1983-April 1989	—	25,000
Due September 1984-June 1986	3,200	3,100
Real estate mortgages, 8.75% to 9.5%, due in varying amounts through 2005	2,600	3,200
Capitalized equipment lease obligations averaging 9.7% (1982-8.0%) payable in varying amounts through 2003	31,100	16,900
Other	500	700
	97,400	48,900
Less—Current portion	5,400	4,500
	\$92,000	\$44,400

On 27 May 1983, a revolving credit agreement for U.S. \$60,000,000 was consummated with a consortium of banks which replaced existing U.S. revolving credit agreements. The credit available under the agreement will be reduced quarterly beginning 30 April 1985 through 30 January 1988. The initial commitment reduction period may be successively deferred for periods of one year at the request of the Company with the consent of the banks. On 14 June 1982, a two-year revolving credit agreement for Canadian \$4,000,000 (U.S.

\$3,200,000—1983 and U.S. \$3,100,000—1982) was consummated. This loan is convertible to a three-year term loan repayable in eight equal quarterly installments beginning 30 September 1984.

Both revolving credit agreements provide for pricing options based upon prime rates, London Interbank Offered Rate (LIBOR), bankers' acceptances or cost of funds. On 30 June 1983, the full amount of the revolving credits was outstanding and the weighted average interest rate was 10.17% (1982—15.8%).

Among other restrictions, the revolving credit agreements require the Company and certain subsidiaries to maintain certain financial ratios and minimum levels of working capital and net worth. Retained earnings available for dividends and the acquisition of capital stock was \$36,700,000 as of 30 June 1983. The Company maintains compensating balances which are not legally restricted.

Approximate annual maturities of long term debt as of 30 June 1983 are as follows (000s omitted):

1984	\$ 5,400
1985	13,100
1986	27,600
1987	23,900
1988	17,200
Later years	10,200
	\$97,400

6. Common Stock

Stock Splits

On 26 May 1983, the Company made a two-for-one stock split by issuing one additional share for each share outstanding. On 21 April 1982, the Company made a three-for-two stock split. All

share data, as appropriate, in the financial statements and notes thereto have been adjusted for the stock splits.

Stock Options

As of 30 June 1983, 535,794 shares were reserved for issuance pursuant to various stock options. The 1980 Plan provides for certain officers and key employees to purchase up to 2,250,000 shares of the Company's common stock. The options expire six years from the date of grant and are generally exercisable in annual increments of 20% beginning one year from the date of grant. As of 30 June 1983, options were held by 57 employees and range in exercise price from \$1.93 to \$54.00 per share. There were 71,782 shares exercisable under the terms of the 1980 Plan as of 30 June 1983. These options expire on various dates from November 1985 to June 1989. Option activity relating to the 1980 Plan during 1982 and 1983 was as follows:

	Number of Shares	Average Price Per Share	Total
Outstanding as of 30 June 1981	528,000	\$ 7.27	\$3,838,000
Granted	300,800	13.60	4,091,000
Exercised	(7,600)	2.26	(17,000)
Cancelled	(293,100)	9.26	(2,714,000)
Outstanding as of 30 June 1982	528,100	\$ 9.84	\$5,198,000

	Number of Shares	Average Price Per Share	Total
Outstanding as of 30 June 1982	528,100	\$ 9.84	\$5,198,000
Granted	154,000	34.82	5,362,000
Exercised	(79,774)	7.09	(565,000)
Cancelled	(116,864)	10.14	(1,186,000)
Outstanding as of 30 June 1983	485,462	\$18.15	\$8,809,000

All options granted under the 1974 Plan were exercised or cancelled prior to 30 June 1983. Options for 152,186 shares were exercised in fiscal 1983 at an aggregate exercise price of \$274,000 and options for 185,626 shares were exercised in fiscal 1982 at an aggregate exercise price of \$218,000.

During 1982, 1980 and 1979, the Board of Directors approved certain special options. As of 30 June 1983, options to purchase 50,332 shares at an average price of \$1.21 per share were held by two persons and were fully exercisable. During fiscal 1983 special options for 130,418 shares were exercised at an aggregate exercise price of \$830,000.

When options are exercised the proceeds, including any applicable income tax benefits, are credited to common stock and contributed surplus.

7. Leases

The Company leases certain machinery and equipment, manufacturing facilities, warehouses and administrative offices with terms expiring at various dates to 2003. Typically, the Company pays property taxes, and insurance and maintenance expenses related to the leased property. The gross value of property included under capital leases as of 30 June 1983 and 1982 was \$41,200,000 and \$22,700,000, respectively. The related accumulated amortization as of 30 June 1983 and 1982 was \$10,900,000 and \$6,300,000, respectively. Amortization expense of property under capital leases was \$5,200,000 in 1983, \$3,400,000 in 1982 and \$1,500,000 in 1981. Total rental expense under operating leases was \$3,100,000 in 1983, \$2,500,000 in 1982 and \$2,500,000 in 1981. Minimum future obli-

gations on leases as of 30 June 1983 are as follows (000s omitted):

	Capital Leases	Operating Leases
1984	\$ 7,600	\$ 2,900
1985	7,400	2,600
1986	6,500	2,300
1987	4,000	1,700
1988	2,100	1,400
Later years	11,100	9,100
Total minimum obligations	\$38,700	\$20,000
Less—Amounts representing interest		7,600
Present value of net minimum obligations		\$31,100

8. Product and Geographic Segment Information

Product Segments

(000s omitted)	Computer Systems	Consumer Products	Semi-conductor Components	Office Equipment	Eliminations	Consolidated
1983						
Sales to unaffiliated customers	\$653,500	\$ —	\$10,100	\$17,600	\$ —	\$681,200
Intersegment sales	—	—	75,600	2,600	(78,200)	—
Net sales	653,500	—	85,700	20,200	(78,200)	681,200
Income from operations	116,700	—	7,700	1,100	(4,600)	120,900
Interest expense, net						(8,000)
Income before income taxes and extraordinary item						112,900
Identifiable assets	549,600	—	61,300	10,200	(6,500)	614,600
Depreciation expense	6,200	—	7,600	600	—	14,400
Capital expenditures	29,900	—	16,400	100	—	46,400
1982						
Sales to unaffiliated customers	\$228,200	\$4,000	\$59,800	\$12,500	\$ —	\$304,500
Intersegment sales	—	—	14,200	2,200	(16,400)	—
Net sales	228,200	4,000	74,000	14,700	(16,400)	304,500
Income (loss) from operations	53,600	(2,500)	6,800	(100)	(800)	57,000
Interest expense, net						(6,200)
Income before income taxes and extraordinary item						50,800
Identifiable assets	175,700	3,100	49,800	8,700	(1,900)	235,400
Depreciation expense	2,400	100	4,700	600	—	7,800
Capital expenditures	4,900	—	19,800	700	—	25,400
1981						
Sales to unaffiliated customers	\$132,500	\$8,200	\$34,900	\$10,900	\$ —	\$186,500
Intersegment sales	—	—	8,900	3,200	(12,100)	—
Net sales	132,500	8,200	43,800	14,100	(12,100)	186,500
Income (loss) from operations	34,800	(5,000)	4,900	100	(100)	34,700
Interest expense, net						(3,900)
Income before income taxes and extraordinary item						30,800
Identifiable assets	88,300	9,200	35,000	13,800	(1,200)	145,100
Depreciation expense	1,500	100	2,600	400	—	4,600
Capital expenditures	3,700	—	9,600	2,900	—	16,200

Note: In fiscal 1982, one customer of the Semiconductor Components segment accounted for 12.8% of consolidated net sales.

Geographic Segments

(000s omitted)	United States	Canada	Europe	Asia	Eliminations	Consolidated
1983						
Sales to unaffiliated customers	\$393,000	\$107,600	\$155,600	\$ 25,000	\$ —	\$681,200
Intersegment sales	111,700	4,800	496,100	322,800	(935,400)	—
Net sales	504,700	112,400	651,700	347,800	(935,400)	681,200
Income from operations	36,400	7,700	104,700	4,000	(31,900)	120,900
Interest expense, net						(8,000)
Income before income taxes and extraordinary item						112,900
Identifiable assets	311,500	73,600	129,800	143,700	(44,000)	614,600
Depreciation expense	10,800	700	1,300	1,600	—	14,400
Capital expenditures	32,400	600	5,900	7,500	—	46,400
1982*						
Sales to unaffiliated customers	\$143,700	\$ 30,600	\$106,000	\$ 24,200	\$ —	\$304,500
Intersegment sales	56,900	2,200	93,200	65,500	(217,800)	—
Net sales	200,600	32,800	199,200	89,700	(217,800)	304,500
Income from operations	16,000	1,800	47,200	1,100	(9,100)	57,000
Interest expense, net						(6,200)
Income before income taxes and extraordinary item						50,800
Identifiable assets	119,600	20,700	79,200	28,000	(12,100)	235,400
Depreciation expense	5,900	600	700	600	—	7,800
Capital expenditures	20,200	700	2,900	1,600	—	25,400
1981*						
Sales to unaffiliated customers	\$ 54,500	\$ 20,700	\$ 85,600	\$ 25,700	\$ —	\$186,500
Intersegment sales	50,400	3,300	30,500	14,000	(98,200)	—
Net sales	104,900	24,000	116,100	39,700	(98,200)	186,500
Income from operations	700	2,100	31,200	2,100	(1,400)	34,700
Interest expense, net						(3,900)
Income before income taxes and extraordinary item						30,800
Identifiable assets	67,000	14,800	44,700	21,700	(3,100)	145,100
Depreciation expense	3,500	400	300	400	—	4,600
Capital expenditures	10,400	2,800	2,200	800	—	16,200

*Restated to conform with 1983 presentation.

9. Litigation

In January 1981, the Company brought suit in the California Superior Court against a former employee, seeking return of 162,000 of the Company's shares which were improperly received and retained by him upon exercise of stock options. The former employee filed a cross complaint against both the Company and Jack Tramiel, President, based on an alleged breach of contract, seeking compensatory damages of not less than \$2,500,000 and punitive damages of not less than

\$150,000,000. The Company's claim for the return of the shares was decided in January 1982 in the Company's favor and the Company has received the 162,000 shares and placed them in its treasury. Appeal by the former employee is pending. The former employee's cross complaint against the Company has not yet been tried. Based on current information and the opinion of counsel, the Company believes there will be no recovery on the cross complaint.

10. Related Party Transactions

Certain individuals who are, by definition, considered to be related parties, have conducted business transactions with the Company as individuals and/or through unaffiliated business entities of which they are principals. The Company believes

that all such transactions were consummated on terms equivalent to those prevailing in arm's-length transactions and that aggregate related party transactions do not represent a material portion of the Company's normal business transactions.

11. Quarterly Financial Information (unaudited) (000s omitted, except per share amounts)

For the Year Ended 30 June 1983	First	Second	Third	Fourth	Year
Net sales	\$103,300	\$176,300	\$189,600	\$212,000	\$681,200
Gross profit	51,600	85,200	89,900	94,100	320,800
Income from operations	16,800	29,300	31,800	35,000	112,900
Provision for income taxes	3,500	6,300	6,800	8,300	24,900
Income before extraordinary item	13,300	23,000	25,000	26,700	88,000
Extraordinary item	1,600	2,100	—	—	3,700
Net income	\$ 14,900	\$ 25,100	\$ 25,000	\$ 26,700	\$ 91,700
Earnings per share:					
Before extraordinary item	\$.44	\$.74	\$.81	\$.87	\$ 2.86
Extraordinary item	.05	.07	—	—	.12
Net income	\$.49	\$.81	\$.81	\$.87	\$ 2.98
For the Year Ended 30 June 1982					
Net sales	\$ 54,200	\$ 70,000	\$ 82,100	\$ 98,200	\$304,500
Gross profit	26,000	29,400	41,600	48,400	145,400
Income from operations	9,100	11,600	13,700	16,400	50,800
Provision for income taxes	1,800	2,300	2,800	3,300	10,200
Income before extraordinary item	7,300	9,300	10,900	13,100	40,600
Extraordinary item	300	—	200	3,200	3,700
Net income	\$ 7,600	\$ 9,300	\$ 11,100	\$ 16,300	\$ 44,300
Earnings per share:					
Before extraordinary item	\$.24	\$.30	\$.35	\$.43	\$ 1.32
Extraordinary item	.01	—	.01	.10	.12
Net income	\$.25	\$.30	\$.36	\$.53	\$ 1.44

12. Supplementary Financial Information Adjusted For Changing Prices (unaudited)

In accordance with the U.S. Financial Accounting Standard No. 33, supplementary unaudited financial data is presented in the tables below. Since this information involves the use of assumptions, estimates and subjective judgments, the data does not necessarily represent a precise measurement of the effects of inflation on the Company.

As a significant portion of the Company's operations is measured in currencies other than the U.S. dollar, the information has been presented under the current cost method only. Specific price indices were used to determine the current cost of property and equipment. Depreciation expense for fiscal 1983 was based on the current cost asset values and the same depreciation methods and useful lives as used in the historical cost financial statements. No adjustment was made to inventories or cost of sales (other than the restated depreciation component) because historical cost approximated current cost. No adjustment was made to net sales, other expenses and interest since they already approximated current cost. As required by the disclosure requirements, no adjustment was made to income taxes.

Consolidated Statement of Income Adjusted for Effects of Changing Prices For Year Ended 30 June 1983 (millions, except per share amounts)

	As Reported	Current Cost
Net Sales	\$681.2	\$681.2
Cost of sales	360.4	361.5
Operating expenses	199.9	200.0
Interest expense, net	8.0	8.0
Provision for income taxes	24.9	24.9
Income before extraordinary item	\$ 88.0	\$ 86.8
Income per share before extraordinary item	\$ 2.86	\$ 2.82
Depreciation and amortization expense included in costs and expenses above	\$ 14.4	\$ 15.6

	As Reported	Current Cost
Inventories and property and equipment (net) at 30 June 1983	\$404.7	\$409.6
Increase in current cost of inventories and property and equipment (net) held during the year		\$ 1.7
Effect of increase in general price level		7.2
Excess of increase in general price level over increase in specific prices		\$ 5.5

Note: As of 30 June 1983, the current cost of net assets, stated in average fiscal 1983 dollars, was \$192.9 million.

As required by Financial Accounting Standard No. 33, the purchasing power gain or loss from holding monetary assets and liabilities must be disclosed. In periods of inflation companies which hold cash and other monetary assets lose purchasing power since these assets will purchase fewer goods and services at the end of the year. Conversely, companies which have liabilities of fixed amounts gain purchasing power because these obligations are payable in dollars of reduced value. During fiscal 1983 the Company's monetary liabilities exceeded the monetary assets and the purchasing power gain, as defined, was \$3.3 million.

Following is a five-year comparison of selected financial information adjusted for changing prices:

	Net Sales in Millions of Constant 1983 Dollars	Market Price Per Common Share at Year-End in Constant 1983 Dollars	Average Annual Consumer Price Index- Urban (CPI-U)
1983	\$681.2	\$53.28	294.1
1982	317.6	19.73	281.9
1981	211.4	16.35	259.4
1980	158.8	4.31	232.6
1979	101.9	2.10	205.2

Auditors' Report

To the Shareholders of Commodore International Limited:

We have examined the consolidated balance sheets of Commodore International Limited (a Bahamian Corporation) and consolidated subsidiaries as of 30 June 1983 and 1982, and the related consolidated statements of operations, shareholders' equity and changes in financial position for each of the three years ended 30 June 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Commodore International Limited and consolidated subsidiaries as of 30 June 1983 and 1982, and the results of their operations and changes in their financial position for each of the three years ended 30 June 1983, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for foreign currency translation as explained in Note 1 to the financial statements, have been applied on a consistent basis.

Philadelphia, Pa.,
9 August 1983

Arthur Andersen & Co.

Common Stock Information

The Company's shares are listed on the New York Stock Exchange.

The high and low quarterly common stock prices for the past two fiscal years were as follows:

	Fiscal 1983 High-Low	Fiscal 1982 High-Low
First Quarter (30 September)	\$19 ³ / ₄ - 13 ¹ / ₁₆	\$15 ⁵ / ₁₆ - 8 ¹ / ₁₆
Second Quarter (31 December)	42 ⁹ / ₁₆ - 17 ³ / ₈	15 ⁵ / ₁₆ - 11 ⁷ / ₁₆
Third Quarter (31 March)	43 ¹ / ₈ - 29 ¹ / ₄	17 ¹ / ₁₆ - 11 ⁵ / ₈
Fourth Quarter (30 June)	60 ⁵ / ₈ - 35 ⁹ / ₁₆	20 ¹ / ₈ - 14 ¹ / ₁₆

All common stock prices have been adjusted to reflect stock splits during fiscal 1983 and 1982.

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Corporate Information

Board of Directors

Irving Gould
Chairman of the Board
Jack Tramiel
President and Chief Executive Officer
Burton Winberg
President
Rockport Holding, Limited
Leonard I. Schreiber
Attorney at Law
Ralph D. Seligman
Attorney at Law
Seligman Maynard & Co.

Officers

Irving Gould
Chairman of the Board
Jack Tramiel
President and Chief Executive Officer
Bernhard W. Witter
Vice President, Finance,
Secretary and Treasurer
Alfred T. Duncan
Vice President
Robert Gleadow
Vice President
Donald F. Richard
Vice President
Lloyd A. Taylor
Vice President
Taro Tokai
Vice President
William M. Murray
Assistant Treasurer

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Willkie, Farr & Gallagher
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